

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 AMMAN 3881

DEPARTMENT PASS AID

E.O. 11652: GDS
TAGS: EAID, JO, US
SUBJECT: CODEL HAMILTON: JORDAN'S ECONOMIC DEVELOPMENT

1. SUMMARY: CODEL HAMILTON DISCUSSED U.S. ECONOMIC AID AND JORDAN'S ECONOMIC DEVELOPMENT PROGRAMS WITH CROWN PRINCE HASSAN AND NATIONAL PLANNING COUNCIL DIRECTOR ODEH. CONCENTRATION WAS ON JORDANIAN INTEREST IN OBTAINING U.S. FINANCIAL CONTRIBUTIONS TO JORDAN VALLEY II AND POTASH PROJECTS IN ADDITION TO REGULAR USAID PROGRAM OF BUDGET SUPPORT AND SOCIAL PROGRAMS. CODEL INDICATED SUPPORT FOR PROJECTS BUT POINTED TO OBVIOUS U.S. BUDGETARY CONSTRAINTS AND GENERAL CONGRESSIONAL INTEREST IN REDUCING BUDGET SUPPORT IN FAVOR OF DEVELOPMENTAL PROJECTS. END SUMMARY.

2. CROWN PRINCE HASSAN JULY 10 GAVE GENERAL OVERVIEW OF JORDANIAN ECONOMIC DEVELOPMENT SITUATION, EMPHASIZING FACT THAT JORDAN IS MAKING EFFORT AT ECONOMIC DEVELOPMENT WHILE ITS ECONOMY CONTINUES TO SUPPORT LARGE INFLUX OF PALESTINIAN REFUGEES FROM 1948 AND THEN 1967 WARS. CROWN PRINCE INDICATED INTEREST IN EXPLORING MAJOR REGIONAL ECONOMIC DEVELOPMENT RECOGNIZING, HOWEVER, THERE ARE POLITICAL CONSTRAINTS INVOLVED. HE STRESSED JORDAN'S INTEREST IN STARTING POTASH PROJECT AND CONTINUING DEVELOPMENT OF JORDAN
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VALLEY THROUGH CONSTRUCTION OF MAQARIN DAM. BY EARLY 1980S, JORDAN HOPES TO HAVE SIGNIFICANT INCOME EARNERS IN DEVELOPMENT OF POTASH, PHOSPHATE AND FERTILIZER INDUSTRIES.

3. ALONG WITH ECONOMIC PROJECTS, CROWN PRINCE FELT NEED FOR CONTINUE DPROGRESS IN SOCIAL DEVELOPMENT, GIVEN FACT THAT JORDAN'S URBAN AREAS HAVE GROWN ENORMOUSLY, ABOSORBING LARGE NUMBERS OF

PALESTINIAN REFUGEES, AND IMPROVEMENT IN SOCIAL SERVICES SUCH AS SEWAGE AND WATER SUPPLIES ARE URGENTLY NEEDED. MEANWHILE, DEVELOPMENT PROJECTS ARE PARTLY DESIGNED ON REGIONAL BASIS TO PROVIDE EMPLOYMENT TO ALL GROUPS WITHOUT DISCRIMINATION THROUGHOUT JORDAN. HE FELT AID HAD IMPORTANT CONTRIBUTION WITH ITS EXPERTISE TO MAKE IN THE SOCIAL DEVELOPMENT AREAS.

4. CROWN PRINCE EXPRESSED HIS HOPE THAT WORLD PREOCCUPATION WITH MIDDLE EAST PEACE PROCESS WOULD NOT OVERLOOK OR DISTORT JORDAN'S ONGOING ECONOMIC DEVELOPMENT NEEDS. RELATIVELY SMALL AMOUNTS OF FUNDS FROM THE OIL-PRODUCING STATES COULD PROVIDE IMPORTANT POLITICAL AND SOCIAL SUPPORT IN JORDAN, SYRIA AND LEBANON. CROWN PRINCE SAID THAT "THE POTENTIAL REJECTIONISTS TO THE PEACE PROCESS ARE NOT JUST IN BAGHDAD AND LIBYA BUT RATHER ARE THE MEN-ON-THE-STREET IN THE CONFRONTATION STATES." JORDAN NEEDS BUDGETARY HELP IN MINIMIZING SOCIAL AND POLITICAL DISCONTENT WHILE, IN THIS TRANSITION PERIOD, IT CONCENTRATES CONSIDERABLE INTERNAL RESOURCES ON ECONOMIC DEVELOPMENT. JORDAN IS ATTEMPTING TO INCREASE AND DIVERSIFY ITS INTERNAL SOURCES OF REVENUE BUT STILL NEEDS OUTSIDE SUPPORT. IS HAS ALSO MADE ENERGETIC EFFORTS TO DIVERSIFY EXTERNAL FUNDING RECENTLY, PARTICULARLY THROUGH EFFORTS OF THE EEC AND VARIOUS ARAB STATES.

5. CONGRESSMAN OBEY INDICATED THAT THERE IS IN CONGRESS CONCERN OVER THE GENERAL CONCEPT WORLDWIDE OF US BUDGET SUPPORT AND GENERAL BELIEF THAT IT IS HEALTHY FOR RECIPIENT COUNTRIES TO MOVE AWAY
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FROM BUDGET SUPPORT AS FAST AS POSSIBLE. THE CROWN PRINCE INDICATED HIS OWN PREFERENCE FOR MOVING INTO DEVELOPMENT PROJECTS FROM BUDGET SUPPORT AND SAID JORDAN IS TRYING TO BE MORE EFFICIENT ON INTERNAL FISCAL CONTROLS. THEY ARE ATTEMPTING TO RAISE MORE REVENUES THROUGH NEW LAND AND RENTAL TAXES AND TO EQUATE THEIR FISCAL POLICIES WITH THEIR DEVELOPMENT NEEDS. HOWEVER, ECONOMICS ARE INTERWOVEN WITH POLITICS AND GOVERNMENT MUST ACCOMMODATE PRESSURES FROM LARGE URBAN POPULATION AND PALESTINIAN REFUGEES.

5. AS FOR THE FUTURE, CROWN PRINCE FELT JORDAN COULD PLAY A ROLE SIMILAR TO THAT OF "SINGAPORE", I.E. TO SERVE AS A CENTER FOR LIGHT INDUSTRY, SERVICE, MANPOWER AND TECHNICAL EXPERTISE FOR THE OIL-RICH ARAB COUNTRIES. HE ALSO BELIEVED THAT THERE IS A BRIGHT FUTURE FOR REGIONAL DEVELOPMENT IN JORDAN AND GREATER RIFT VALLEY IN BOTH AGRICULTURE AND INDUSTRY. HE MENTIONED THAT THE CONTINUING PALESTINIAN REFUGEE PRESENCE IN JORDAN CONSTITUTES "AN ECONOMY WITHIN AN ECONOMY." HE WOULD LIKE TO SEE LONGER-RANGE PLANS FOR DEALING WITH THE PALESTINIAN REFUGEES IN ORDER TO END THE CAMPS, HOWEVER, ACKNOWLEDGING THAT THERE MUST BE A POLITICAL ALTERNATIVE PROVIDED FOR THE FUTURE OF THE REFUGEES BEFORE SUCH LONG-RANGE PLANS CAN BE UNDERTAKEN.

6. ON JULY 11 CODEL HAMILTON MET WITH NPC PRESIDENT
HANNA ODEH AND JORDAN VALLEY AUTHORITY PRESIDENT
OMAR ABDULLAH DUKHQAN.

7. ABDULLAH MADE A VERY SHORT PRESENTATION ON PLANS FOR
DEVELOPMENT OF THE JORDAN VALLEY INCLUDING THE PROPOSED MAQARIN
DAM PROJECT AND MADE PASSING REFERENCE TO THE FACT THAT THE JVA
IS NOW RESPONSIBLE FOR THE WADI ARABA AREA SOUTH OF THE DEAD SEA.

8. ODEH THEN MADE A GERNERAL PRESENTATION ON JORDAN'S FOREIGN
ECONOMIC ASSISTANCE NEEDS. HE POINTED OUT THAT JORDAN RECEIVES
THREE TYPES OF ECONOMIC ASSISTANCE FROM THE UNITED STATES:
BUDGET SUPPORT, DEVELOPMENT LOANS AND TECHNICAL ASSISTANCE GRANTS.
HE NOTED THAT THE LEVEL OF BUDGET SUPPORT HAS BEEN DECLINING
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RAPIDLY AND THAT THERE HAS BEEN A SHIFT TO SOCIAL DEVELOPMENT
AND INFRASTRUCTURE PROJECTS, AS IN THE JORDAN VALLEY. BUDGET
SUPPORT IS STILL A NECESSARY INGREDIAENT IN THE ASSISTANCE PROGRAM
TO COVER INCREASING AND DIVERSIIFIED RECURRENT COSTS OF THE
GOVERNMENT'S SOCIAL PROGRAM AND THAT THE BUDGET SUPPORT IS
SMALL COMPARED TO JORDAN'S OVERALL REQUIREMENTS FOR OPERATING COSTS.

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9. ODEH FURTHER NOTED THAT JORDAN HAS ALLOCATED \$2.5 BILLION
TO THE FIVE-YEAR PLAN AND THAT INFLATION MAY DRIVE UP THAT

FIGURE. JORDAN'S BUDGETARY CONTRIBUTION TO DEVELOPMENT PROJECTS MAY RANGE ANYWHERE FROM 10 PCT. TO 50 PCT., DEPENDING ON THE NATURE OF

THE PROJECT AND THE REQUIREMENTS OF THE DONORS, WHICH MAKES IT ESPECIALLY IMPORTANT IN THIS INTERIM PERIOD TO CONTINUE BUDGET SUPPORT. IN ADDITION TO THE REGULAR DEVELOPMENT PROGRAM, JORDAN NOW FACES THE REQUIREMENT TO FUND TWO MAJOR PROJECTS: THE JORDAN VALLEY II PROJECT (MAQARIN DAM) AT ABOUT A HALF BILLION DOLLARS AND A POTASH PROJECT AT MORE THAN \$400 MILLION. THERE WILL HAVE TO BE VERY SUBSTANTIAL EXTERNAL SUPPORT FOR THESE PROJECTS AND US INVOLVEMENT IS ESSENTIAL BOTH TO IMPLEMENT THE PROJECTS AND TO ATTRACT FUNDS FROM OTHER DONORS, PARTICULARLY THE ARABS. OBVIOUSLY, IF THE AID PROGRAM WERE MAINTAINED IN FY79 AT THE \$93 MILLION LEVEL OF '78 IT WOULD NOT BE POSSIBLE TO INCLUDE POTASH AND MAQARIN AND STILL DO THE INDISPENSABLE SOCIAL PROJECTS SUCH AS WATER AND SEWAGE FOR AMMAN.

10. OTHER DONORS HAVE EXPRESSED INTEREST IN HELPING WITH JORDAN VALLEY II, SUCH AS THE IBRD, THE KUWAIT FUND, THE GERMANS AND THE ARAB FUND. THE ARAB DONORS WOULD WANT "PARALLEL" FINANCING. FOR OBVIOUS (I.E. POLITICAL) REASONS THEY WOULD WANT TO

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CONCENTRATE ON THE IRRIGATION ACTIVITY IN THE VALLEY ITSELF AND NOT CONTRIBUTE TO THE CONSTRUCTION OF THE DAM. THEY WOULD THEREFORE EXPECT THE US TO CONTRIBUTE SUBSTANTIALLY TO THE CONSTRUCTION COSTS OF THE DAM.

11. ODEH ADDED THAT THE IMPORTANCE OF CONTINUING SOCIAL PROJECTS IS EVIDENT WHEN ONE CONSIDERS THAT THE POPULATION OF AMMAN IN 1948 WAS 35,000 AND IS NOW 800,000. ESTIMATED COSTS FOR A COMPREHENSIVE WATER AND SEWAGE SYSTEM FOR AMMAN ARE \$150 TO \$170 MILLION AND ALTHOUGH THE IBRD HAS AGREED TO PUT UP \$15 MILLION, CLEARLY ASSISTANCE IS REQUIRED FROM OTHERS AND THAT IS WHY AID HAS BEEN ASKED TO HELP WITH THIS PROJECT. THERE ARE ALSO WATER AND SEWAGE NEEDS FOR AQABA, AND KUWAIT AND THE UK WILL JOIN AID IN MEETING THE PROJECT COSTS. ELECTRICITY MUST BE PROVIDED TO THE POPULATION AND A JORDAN ELECTRIC AUTHORITY HAS JUST BEEN CREATED. FOR THESE REASONS IT IS IMPORTANT FOR THE US TO CONTINUE TO SUPPORT SOCIAL PROJECTS DURING THE PERIOD WHEN IT IS BEING ASKED TO CONTRIBUTE TO THE POTASH AND JORDAN VALLEY II PROJECTS.

12. IN ANSWER TO QUESTIONS FROM THE CODEL, ODEH NOTED THAT THE FY78 AID PROGRAM FOR JORDAN WILL PROVIDE \$42 MILLION IN BUDGET SUPPORT, \$46 MILLION IN LOANS AND \$5 MILLION IN GRANTS, WHICH MAKES CLEAR THAT BUDGET SUPPORT IS LESS THAN 50 PCT. OF THE TOTAL. THE AMBASSADOR NOTED THAT BUDGET SUPPORT WILL DECLINE AGAIN IN FY79, AND IN THE FOLLOWING YEARS MAY DROP TO A LEVEL

OF \$30 MILLION. IN RESPONSE TO QUESTIONS, ODEH NOTED THAT THE US WAS BEING ASKED TO PUT UP \$200 MILLION FOR JORDAN VALLEY II WHICH WILL BE 40 PCT. OF TOTAL COSTS AND \$70 MILLION TOWARDS THE \$400 MILLION TOTAL COSTS OF THE POTASH PROJECT. HE NOTED THAT \$5 MILLION IS PROGRAMMED AS THE US CONTRIBUTION TO DESIGN OF THE MAQARIN DAM. HE SAID THAT HE FELT THAT ALL OF

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THE US CONTRIBUTION TO THE POTASH PROJECT SHOULD BE PROVIDED IN FY79 AND A "SIGNIFICANT" PORTION OF THE COSTS OF MAQARIN SHOULD BE PROVIDED IN THE SAME FY, WITH THE REST FOR MAQARIN IN FY80. IN THE CASE OF THE POTASH PROJECT, BOTH LOANS AND EQUITY WOULD CONSTITUTE THE CAPITALIZATION. IN THE CASE OF MAQARIN, THERE WOULD BE NO CAPITALIZATION IN THAT SENSE, SINCE IT IS AN INFRASTRUCTURE PROJECT, BUT THERE WOULD BE A MULTI-YEAR DISBURSEMENTS OF THE LOAN FUNDS. WHAT IS REQUIRED FROM THE US IS NOT AN APPROPRIATION IN ONE YEAR FOR ALL OF THE FUNDS, BUT A COMMITMENT WHICH WOULD INDUCE OTHER DONORS TO MAKE SIMILAR PLEDGES. THE ARAB DONORS AND THE WORLD BANK, HE NOTED, DO NOT HAVE ANNUAL BUDGETS, LIKE AID, AND DO MAKE MULTI-YEAR COMMITMENTS TO PROJECTS.

13. CONGRESSMAN OBEY NOTED THAT HALF OF THE MEMBERS OF THE HOUSE OF REPRESENTATIVES HAVE BEEN ELECTED DURING THE PAST FIVE YEARS AND HAVE A DIFFERENT PERCEPTION OF THE WORLD FROM OLDER CONGRESSMEN. IT WOULD BE DIFFICULT TO PERSUADE THEM TO INCREASE THE BILATERAL PROGRAM FOR ANY GIVEN COUNTRY BY 200 OR 300 PCT. IN ANY GIVEN YEAR AS ODEH'S REQUEST IMPLIED. AS EVIDENCE OF THEIR ATTITUDES, HE NOTED THAT FOR THE FIRST TIME THIS YEAR 5 PCT. WAS CUT FROM THE TOTAL APPROPRIATION FOR FOREIGN ASSISTANCE ON THE FLOOR OF THE HOUSE. HE IS, PERSONALLY, ENTHUSIASTIC ABOUT BOTH THE POTASH AND MAQARIN PROJECTS BUT HAS TO INDICATE THAT THERE MIGHT BE DIFFICULTIES IN OBTAINING CONGRESSIONAL APPROVAL FOR AN INCREASE OF THE BILATERAL PROGRAM OF \$270 MILLION IN ONE YEAR. CONGRESSMAN ROSENTHAL NOTED THAT HE ALSO WAS VERY ENTHUSIASTIC ABOUT BOTH PROJECTS AND THOUGHT THAT IF JORDAN VALLEY II WAS PRESENTED AS A REGIONAL PROJECT WITH MULTI-YEAR FUNDING, AND IN AN UPBEAT MIDEAST POLITICAL ATMOSPHERE, IT MIGHT RECEIVE SUBSTANTIAL SUPPORT. (AFTER THE MEETING, CONGRESSMAN MIKVA MADE THE SAME OBSERVATION AS CONGRESSMAN ROSENTHAL TO MISSION REPRESENTATIVES.) SUCH AN APPROACH MIGHT BE EFFECTIVE IN OBTAINING WORLD BANK AND ARAB COMMITMENTS TO PROJECT.

14. THIS MESSAGE NOT CLEARED WITH CODEL.

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Message Attributes

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